

Aberdeen & Grampian Chamber of Commerce

Oil and Gas Survey

31st Survey: November 2019



Aberdeen &
Grampian
Chamber of
Commerce

University of
Strathclyde
Glasgow



KPMG

Survey context

The global economic outlook has weakened over the last year, with a slowdown in most key markets.

Some of this reflects a general easing in the growth cycle following a relatively strong couple of years, particularly in the US and emerging markets.

But it is also – in part – a consequence of rising trade and geopolitical tensions. It is no surprise that international trade, investment and overall business confidence have all been impacted.

That being said, global growth is expected to remain positive this year and next although there will be significant variation across regions. Advanced economies, and in particular Europe, are on track to record relatively weaker levels of activity this year and next.

With such an outlook, it is no surprise that oil prices have remained around the \$60 level.

Of course, here in the UK we have additional levels of uncertainty with the third general election in just over four years, whilst the UK's departure from the EU has been shifted back once again, this time to January 31.

The policy context in which the industry will find itself in could vary significantly depending upon the outcome of political events over the next six to eight weeks.

The summer saw a significant increase in public and political interest around climate change. In June, the UK Government committed to bring all greenhouse gas emissions to net zero by 2050. In September, Holyrood passed legislation that would see Scotland reach this target by 2045, with a supplementary target to achieve a 75% reduction in emissions by 2030.

The energy transition provides significant challenges for the oil and gas sector, but also tremendous opportunities. On any deliverable transition plan, the North Sea will continue to play a key role in providing UK energy needs for decades to come. But the demands on industry to shift into new sources of energy will only increase.

Contents

Introduction

Sponsor's foreword	4
Chamber viewpoint	5
Key findings	6

Business optimism

United Kingdom Continental Shelf.....	9
International	10

Trends in business activity

Production related	12
Decommissioning related activity	12
Employment related activity	12
Employment change	16

Recruitment, retention and skills shortages

Recruitment, retention and skills shortages	18
---	----

Current industry challenges

Current industry challenges	22
-----------------------------------	----

Appendix

Methodology, contacts and about the team	25
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Sponsor's foreword

Despite continuing uncertainty in the wider Scottish and UK economies, and the impact of climate change on investment priorities for providers of capital, the latest survey paints a positive picture for the oil and gas sector with growing confidence levels driven by a deep sense of resilience and an increasing focus on innovation.

The 31st Oil & Gas Survey, produced by the Aberdeen & Grampian Chamber of Commerce and sponsored by KPMG, offers an injection of optimism at an otherwise uncertain time for the wider economy.

In the previous survey we reported steadily rising confidence levels with an increasing number of contractors confirming they were focusing more on diversification and addressing the industry's talent and skills shortage. The latest findings offer reassurance for a sector that is more collaborative, more innovative, and more resilient than ever before.

Alongside rising confidence levels production activity seems to be growing, with 43% of contractors reporting an increase – up from 28% 12 months ago. However it's clear that the downturn which hit the industry just a few years ago remains a risk factor, with 88% of respondents telling us the oil price and market stability is their biggest business concern.

A return to growth creates its own challenges, especially in the war for talent. More than half of firms questioned have increased employment over the last year with pay rising by an average of 2.9% in 2019, up from 0.95% in 2018 and compared with a reduction of just over 2% in 2017. The negative impact of price inflation from previous growth periods will be remembered by many.

Scotland's oil and gas sector remains a key growth driver and a vital economic powerhouse for the country but with new challenges on the horizon the industry is going through a period of transition rather than decline. Fewer than a third of contractors told us they expect their business activity to be 100% focused on oil and gas by 2025, while almost half of all firms questioned say their corporate strategy now outlines targets or deadlines for reducing their carbon footprint or finding low carbon solutions.

We may not return to the periods of high growth witnessed in the oil and gas sector pre-downturn but the survey suggests the sector is resilient, confident and prepared for long-term, sustainable success.



Martin Findlay
*Office senior partner
and tax partner, KPMG*

Chamber viewpoint

Welcome to the 31st edition of Aberdeen & Grampian Chamber of Commerce oil and gas survey, conducted in partnership with KPMG and supported by the Fraser of Allander Institute.

The research is fully independent and delivered as part of our commitment to provide Chamber members and the wider stakeholder community with the market insight and management information they need to make better informed business and investment decisions.

Although it's the longest running report of its kind in the UK we regularly revise the survey to ensure we not only capture long-standing trend data but also explore current challenges and issues for the industry. For our 31st survey we've looked to further explore the industry's approach to energy transition and diversification and the barriers associated with this process.

The results of the survey indicate improvements in production-related activity in the North Sea, with a net of +43% reporting an increase in the last 12 compared

to +28% a year ago. This +43% is the highest net balance we have recorded for production-related activity since we began recording this data in 2013. A similar net balance (+46%) are also expecting an increase in activity over the next 12 months.

Sustained positive levels of optimism in the market and related activity have translated into recruitment, with over a quarter of surveyed contractors increasing their workforce by over 10% over the past year. Only 3% of firms expect to reduce their workforce in the coming year. This focus on expanding the workforce within the region has seen pay continue to increase. Following the downturn and challenging recovery period which followed firms cited a need to reduce costs as the main reason they were adjusting pay and conditions. Since 2018 this has shifted and 61% of firms reported that their need to retain staff was the primary driver for pay changes in this survey.

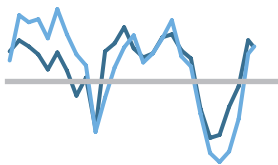
It's positive to see that opportunities are growing outside of core oil and gas activity too with 52% of firms reporting that demand for non-oil and gas project related work has increased organically, illustrating an increasing awareness outside the sector for skillsets and expertise to be applied to new problems in new industries. Businesses continue to cite profitability and talent as some of the key barriers which prevent them from considering further work outside of the industry, with these challenges raised by around a third of our respondents respectively.

Given that talent attraction is constraining the industry's ability not just to grow in the now but to diversify in the future, it makes it all the more important that the industry engages with key initiatives such as Roadmap 2035, spearheaded by Oil and Gas UK, to change perceptions and attract the diverse workforce the industry will need to succeed in the coming decades. Fundamentally, few of the major challenges facing firms in the sector are likely to be solved overnight. What is clear is that some of the big issues, particularly talent attraction and the energy transition, will benefit from a collaborative approach to showcase where the industry is actively taking action.



Shane Taylor,
*research and policy manager, Aberdeen
& Grampian Chamber of Commerce*

Key findings



Contractors' confidence in the UKCS improves with a net balance of +46% compared to +42% six months ago



A net balance of +51% of contractors are more confident about their current international activities and +57% are forecasting a further rise over the next 12 months



49% of firms report that their organisation's strategy outlines targets or deadlines for reducing their carbon footprint or finding low carbon solutions



54% of contractors increased employment (FTE) over the past year while 12% reported decreasing their workforce

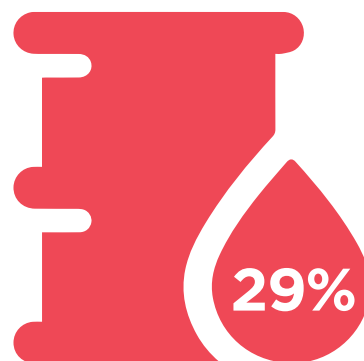


+2.9%

average change in pay in 2019 compared to 0.95% in 2018 and -2.14% in 2017



cited concerns around profitability and ROI as a barrier to diversification

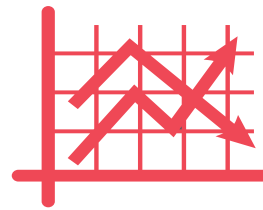


Only 29% of contractors expect that their business' activity will be 100% oil and gas by 2025



52%

of firms report that demand for their services/products is increasing organically in non-oil and gas projects compared to 15% six months ago



Trends in UKCS production activity continue to rise with a net of **+43%** of contractors reporting an increase compared to **+28%** a year ago

Contractors vacancy rate:

0.93 per 100 jobs

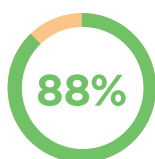
(down from 2.29 six months ago)



27%

of firms plan to recruit fewer contractors following IR35 legislation changes in April 2020

Top concerns for the next 10 years



- oil price / market stability



- Brexit / political environment



- employment costs and recruitment challenges



- energy transition / diversification

Business optimism



United Kingdom Continental Shelf

Output in UK oil and gas has been falling since 1999 – with the exception of modest increases in more recent years however the oil and gas sector in the UK seems to have weathered the storm from the 2015 oil price collapse with many of the key trends in this latest survey back to or above trend levels. However, this recovery is yet to be felt across the whole of the industry and with the sector having previously focused on exploiting conventional oil and gas sites, the oil and gas industry now finds itself looking at diversification and alternative forms of energy. The downturn in the oil and gas sector in 2015 and 2016 posed a significant challenge, not just for the oil and gas sector but also for the Scottish economy as a whole and a general global slowdown is also likely to mean that the price of oil will stay lower (and for longer). This will act to suppress investment in Scotland's oil and gas sector. Furthermore, the outlook for the sector is also being affected by the tangible sense of uncertainty, fuelled by the unstable political situation and challenging market conditions.

In the current business survey, business confidence

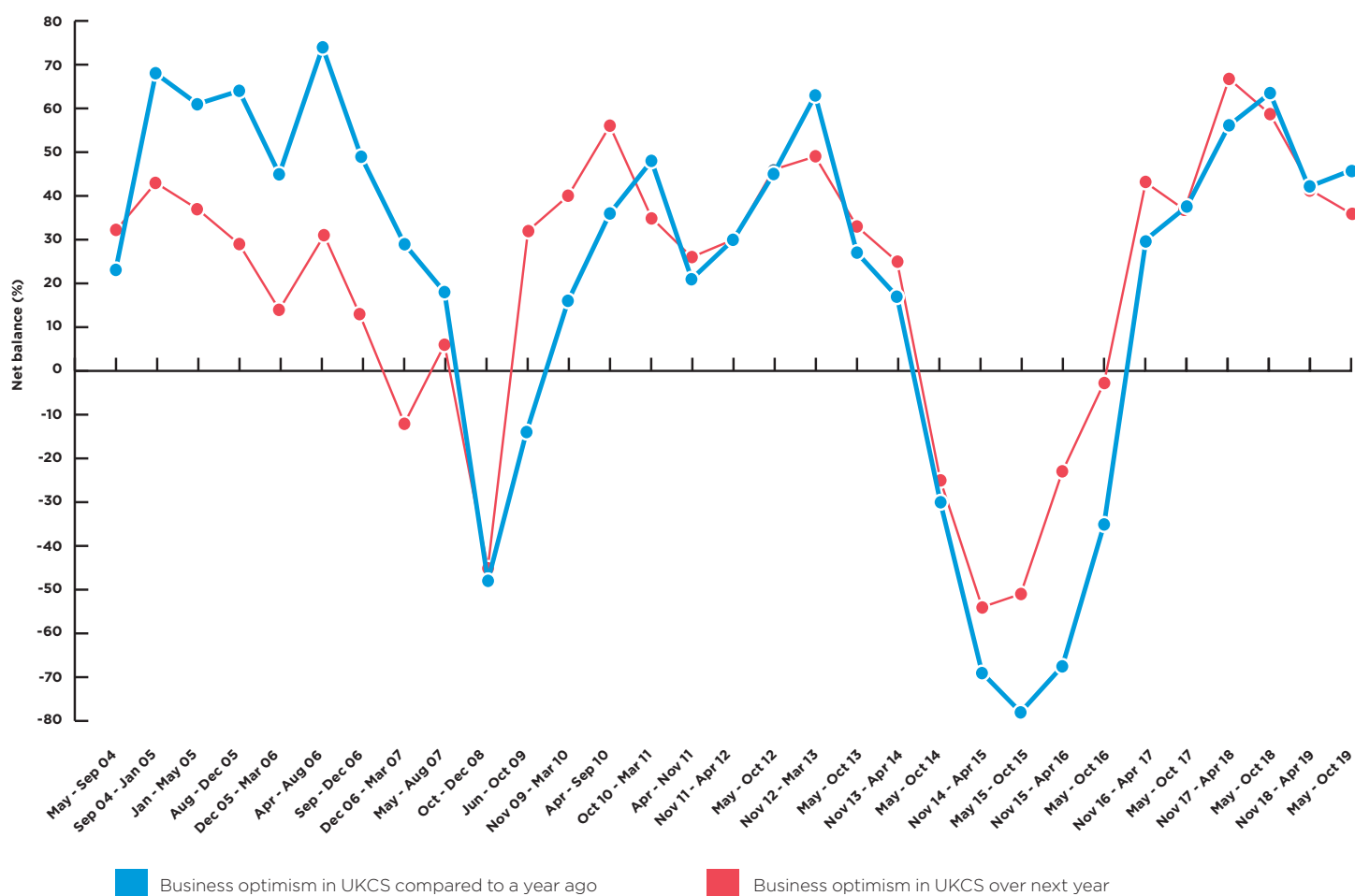
among contractors improved further on the already high levels seen over the past three years. During the current survey period – the six months to October 2019 – more than half (51%) of contractors were more confident about their activities, while only 5% were less confident. The net balance of + 46% showed that contractors' confidence in their current UKCS activity was up from the + 42% recorded in the previous survey and remains well above the 10-year average net balance of + 14%.

The net balance is the proportion of respondents reporting a rise minus those reporting a fall, therefore a positive net balance indicates an overall increase while a negative net balance indicates an overall decline.

Looking a year ahead fewer than one in 10 contractors (9%) expect the outlook to worsen and almost half (45%) are confident that this upward trend will continue.

Similarly, licensees and operators continued to report positive confidence levels and looking to the year ahead a net balance continue to remain confident about future prospects.

Figure 1: Contractors: business confidence in UKCS (net balances)



International

Confidence surrounding international activity levels is similar to the domestic picture. Contractors, on balance, remained upbeat about their international activities with optimism trends remaining positive and rising a little compared to six months ago. Firms, on balance, continued to report and expect positive trends for both actual optimism and for expected levels over the coming 12 months.

Between autumn 2015 and spring 2016 around half of contractors recorded declines in confidence regarding international work however in past two years this has fallen to below 10%. Over the past 12 months optimism in the international oil and gas sector increased for more than half of firms (56%) and a greater proportion (61%) are forecasting a further rise.

A net balance of +51% of contractors are more confident about their current international activities; up slightly from +49% in the spring survey. Furthermore, a net of +57% are forecasting a rise over the coming 12 month period.

Similar to the trends in UKCS activity, licensees and operators, respondents once again, recorded and expect

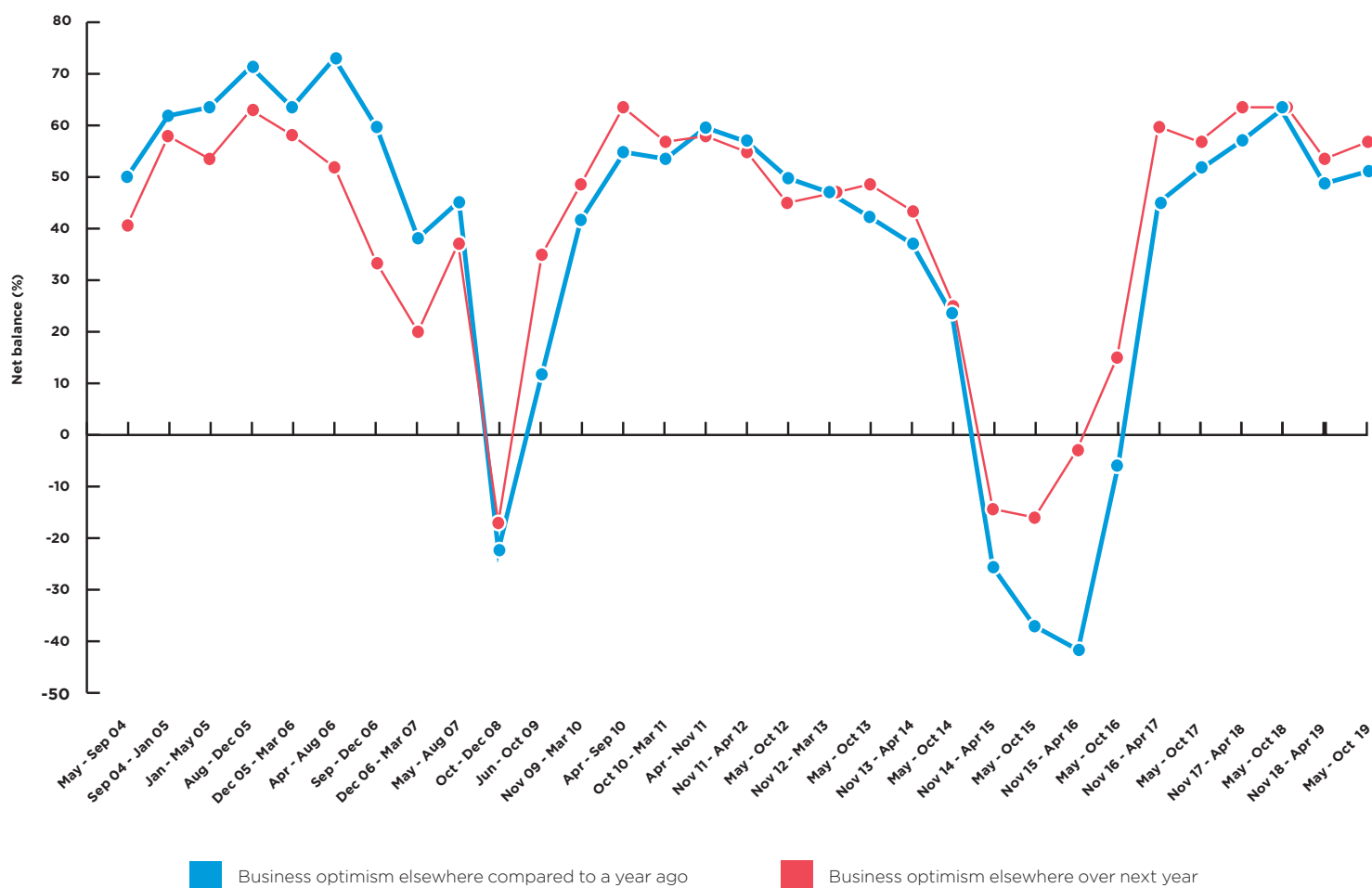
a further rise in optimism around the oil and gas industry outside of the UKCS.



It is positive to see relative resilience in the international markets, although the industry is not insulated from the challenges wrought by continued political uncertainty as we find around 50% of firms continue to see Brexit as a key concern for the future.

Chamber viewpoint

Figure 2: Contractors - business confidence in international markets (net balances)



Trends in business activity



Trends in business activity

Moving from confidence to the specific activities of firms in this year and over future periods. Firstly, firms were asked questions concerning the actual and expected value of their organisations work in the UKCS in production related work, decommissioning work and exploration activities (see Figures 3 and 4). Secondly, they are also asked the same questions regarding their international activities.

Production related work

Through 2015 until the first half of 2017, contractors consistently reported net negative trends in the value of production-related work in the UKCS. However, over the past two years this trend has been improving and in this latest survey the net balance rose further to a net balance of +43% of contractors reporting an increase. This compares to a net of plus 36% in the spring survey and to plus 28% in the autumn 2018 report. During the coming year more than half of contracting firms (54%) are forecasting a further increase in the value of production-related activities and only 8% forecasting a decline (a net balance of +46%).

Turning now to the value of production work outside the UKCS, only 4% of contractors reported a decline and around half (49%) reported an increase – a net balance of +45%, with 58% predicting a rise over the next year.

More than half of licensees/operators noted an increase

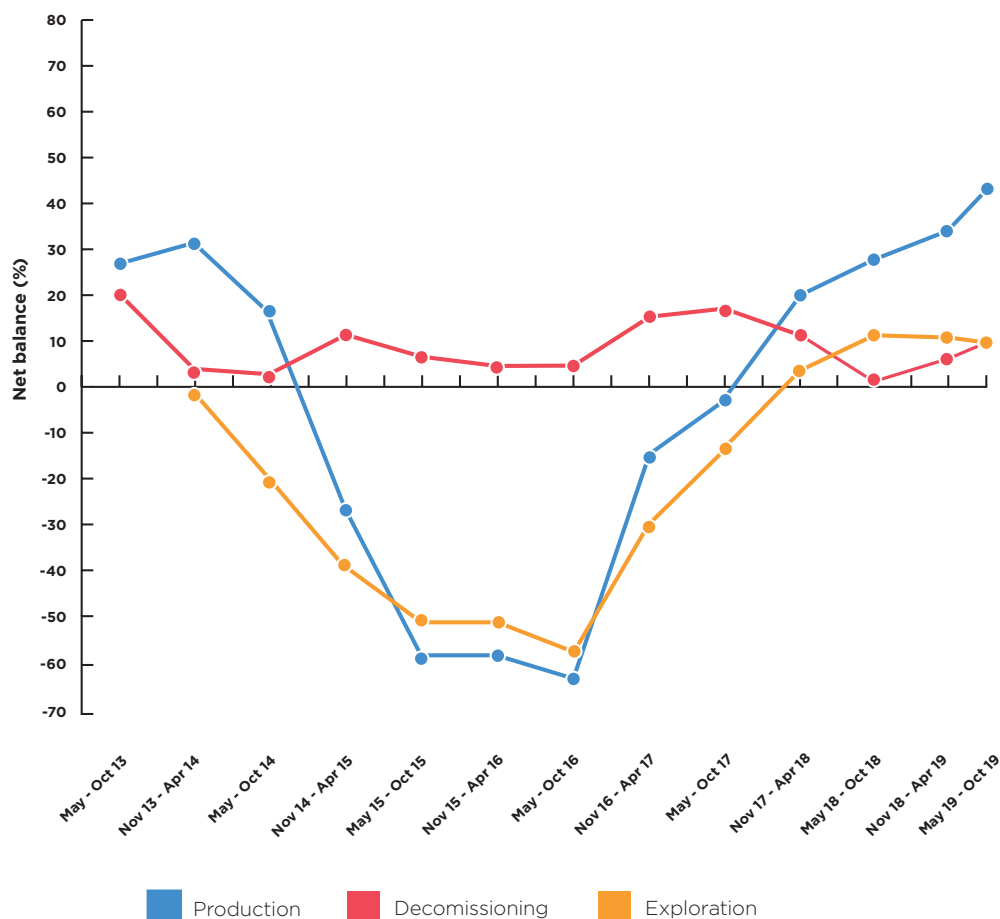
in the value of their UKCS production related work whilst fewer than one in 10 reported a decline, and around a third expect no change to this value over the coming 12 months. With regard to the value of international production work, around a third reported and expect a rise.

Decommissioning related activity

Changes to the oil and gas industry in the UK mean that decommissioning is increasingly taking its place alongside exploration and production activity. This survey asks firms about their decommissioning activity every six months and over time we can begin to look at the trajectory rather than the short term changes.

One year ago the trend in the value of UKCS decommissioning-related activities eased to its lowest level since 2013, then it increased a little to a net balance of +6% in the previous survey. During the past six months it continued to show a marginal improvement rising to

Figure 3: Contractors - trends in UKCS activity in the last 12 months



+9% and it now sits half a percentage point above the average net balance (since this question was introduced in 2013). Decommissioning activity was not relevant for 41% of contracting firms and of the remainder, 18% reported an increase in the value of the work and 8% reported a fall. Decommissioning activity is set to increase during the coming year with 28% of contractors expecting an increase in the value of UKCS decommissioning work and 1% forecasting a decline in the value of such work.

A net balance of +12% of firms from the previous survey had expected a rise in international decommissioning-related activity though the outturn was more modest at +4%. Over the course of the next year a net of +12% anticipate a further increase.

Exploration related activity

The trend in the value of UKCS exploration-related work amongst contractors was negative from 2014 through to 2017, dipping to its lowest point in autumn 2016. Since then it has remained positive. In the previous survey a net balance of +10% of contractors recorded a rise and in this current survey the balance eased slightly though remains positive (+9%). During the coming 12 months the trend is expected to rise with a net balance of +14% forecasting an

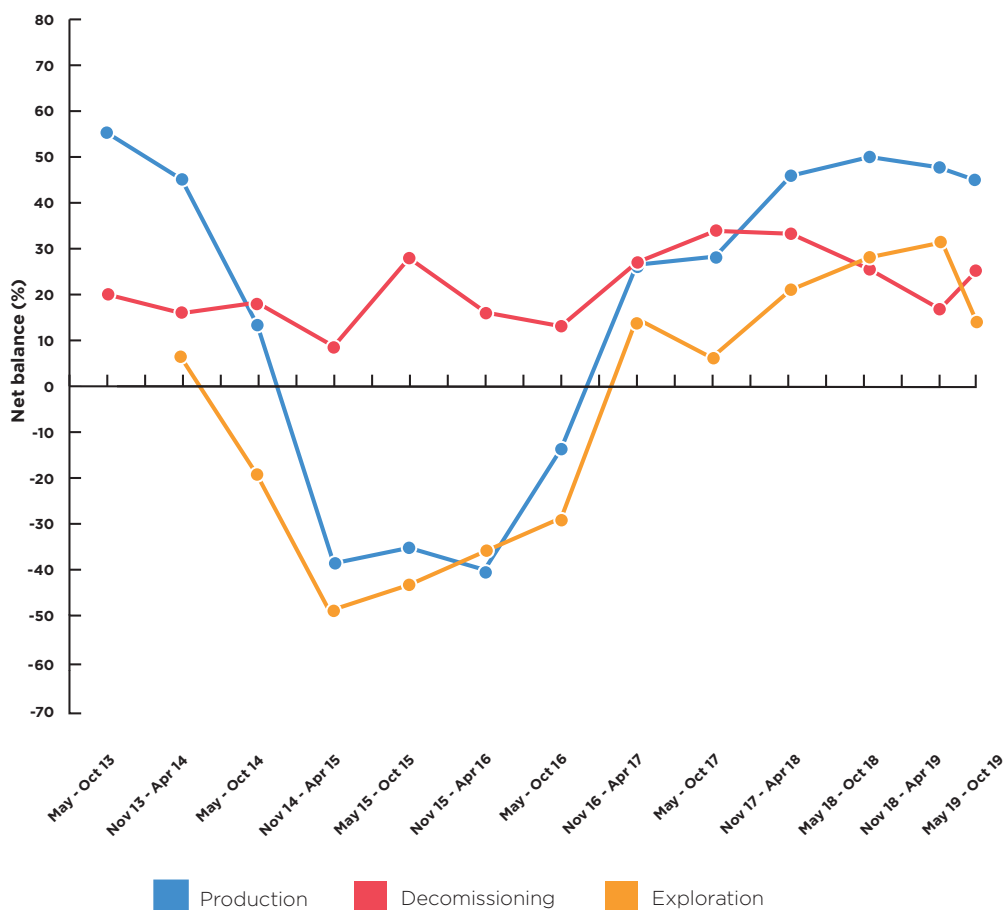
increase in the value of UKCS exploration activity.

Similarly, the value of international exploration work has been, on balance, negative since spring 2015 but turned positive in spring 2018. This current survey saw a net balance of +25% of contractors recording an increase in international exploration and a net balance of +28% are forecasting a rise over the coming year.

A net balance of licensees/operators recorded a rise in the trend in the value of UKCS exploration work compared to the previous survey and a net balance are expecting a further rise.

Excluding seasonal factors, the trend in total international exploration work for licensees/operators improved in the six months to October 2019 and firms are anticipating a further improvement in overseas exploration work during the coming 12-month period.

Figure 4: Contractors – scheduled / expected trends in UKCS activity over the next 12 months



Trends in business activity

Activity levels

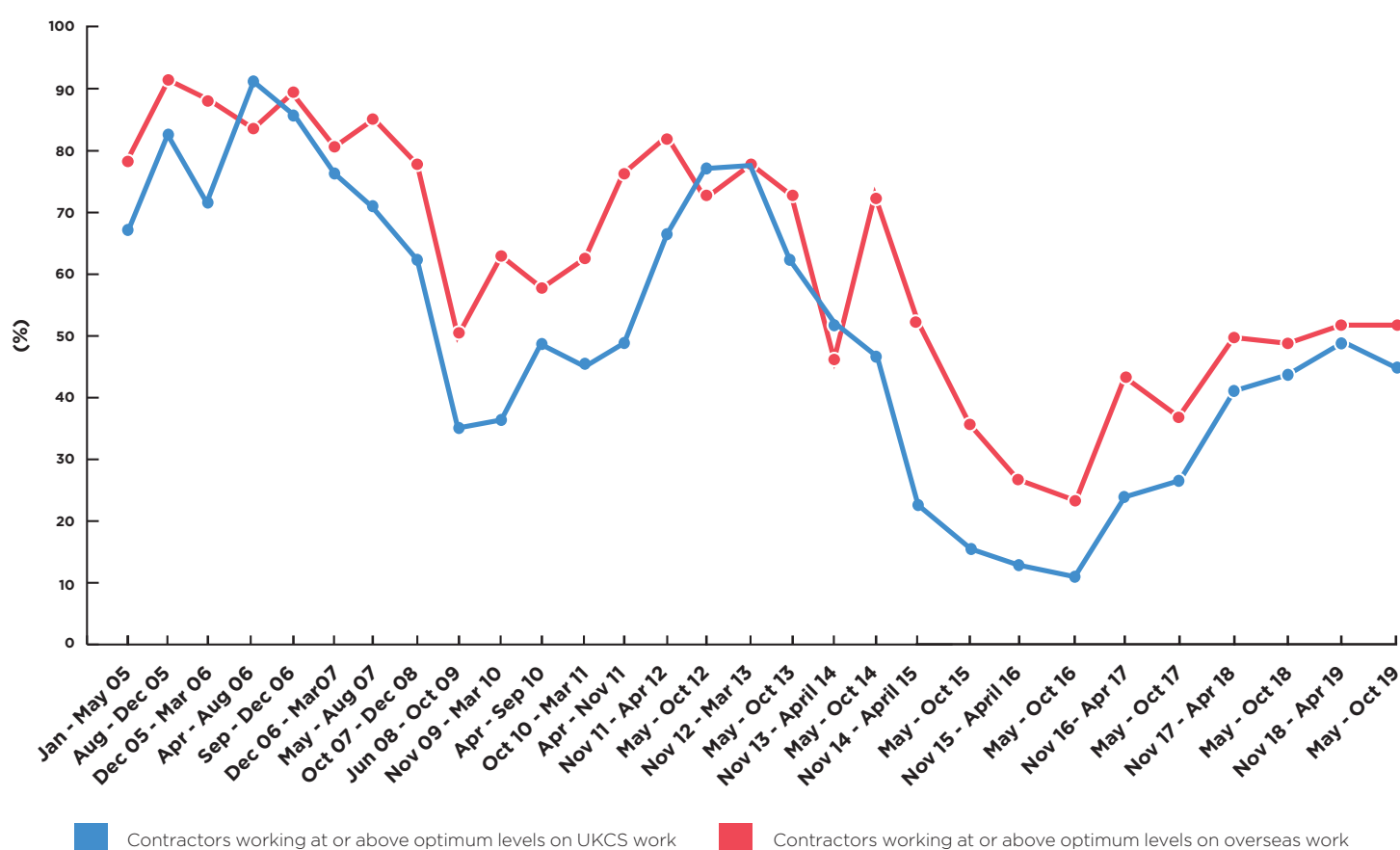
Figure 5 illustrates the percentage of contractors working at or above optimum levels over the period since the survey started in 2004.

The share of contractors working at, or above, optimum levels in their UKCS operations peaked at 79% in the spring of 2013, it declined steadily over the three years until the May-October 2016 survey when it stood at 12% (the lowest figure since the survey began). Since then it has been rising steadily to reach 49% in the previous survey. In this latest survey this figure is

broadly unchanged, easing slightly to 45% reporting working at, or above optimum levels in their UKCS operations.

In recent years global pressures have led to fewer firms reporting working at, or above optimum levels in overseas markets although since 2014 contractors have consistently reported stronger activity in their overseas portfolios compared to their UKCS portfolios. Once again this is evident in this latest survey with 51% of contractor firms involved in overseas work working at or above optimum levels.

Figure 5: Percentage of contractors reporting working at or above optimum levels



Business trends

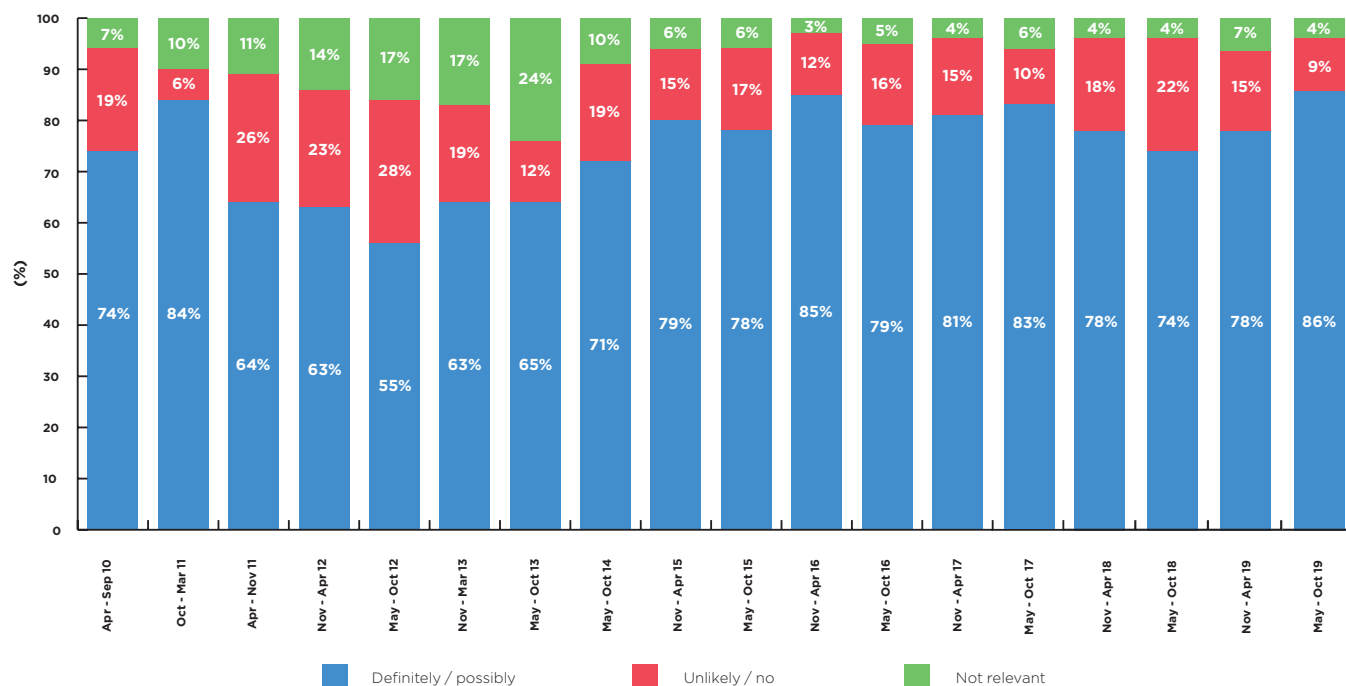
The survey questioned firms about trends in production, exploration and decommissioning both in the UKCS and in international markets. We also enquired about firms' expectations of involvement in specific activities over the medium term (defined in the survey as the next three to five years). The survey asks firms about their activities in decommissioning, renewables and unconventional oil and gas extraction.

Figure 6 shows contractors' expectations of greater involvement in decommissioning activity over the medium term. In the previous survey, a total of 78% reported that they were 'definitely' or 'possibly' likely to be more involved in decommissioning however in this latest survey this has risen to 86% - the highest proportion recorded since this question

was introduced in 2010. We find:

- 27% (26% in the previous survey) reported they would definitely be more involved in decommissioning;
- 59% (greater than the 52% in the previous survey) reported they would possibly be more involved in decommissioning;
- Until now the proportion recording either that decommissioning activity is not relevant for them or that they were unlikely to/would not be involved has changed only marginally but in this latest survey it fell from 22% previously to now stand at just 14% - the lowest figure since the introduction of this question in 2010.

Figure 6: Contractors - Involvement in decommissioning activity in the next three to five years

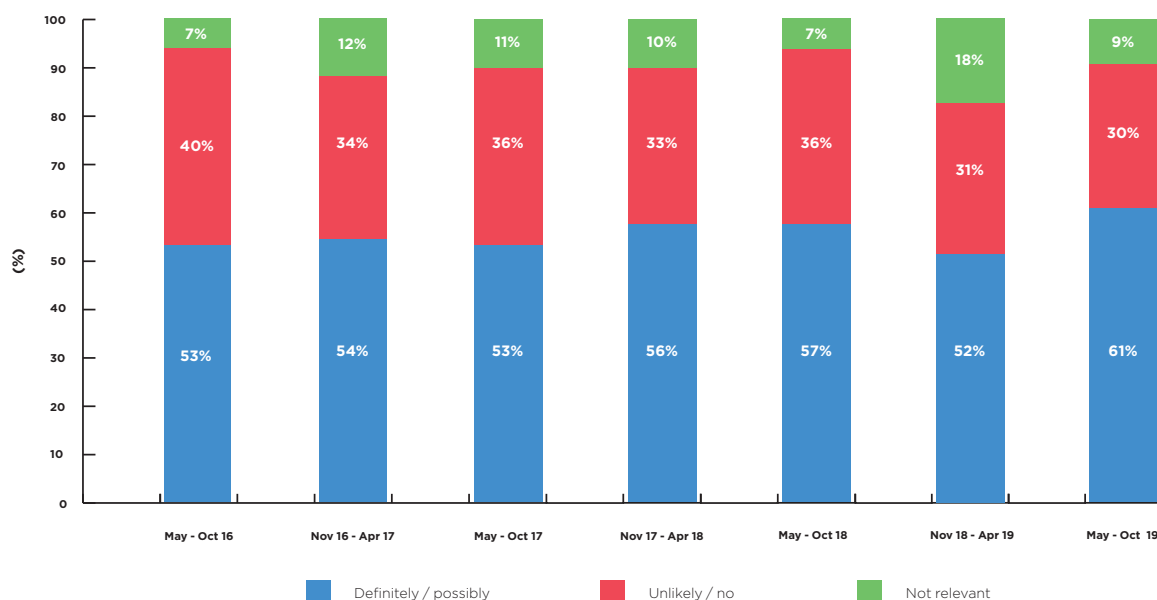


Turning now to renewables this latest survey has shown an upswing in the proportion of contractors indicating that they will definitely/possibly become more involved in UKCS renewables work over the coming three to five year period. The proportion jumped from 52% in the previous survey to 61% in this current survey. This is the highest proportion since autumn 2016. Furthermore, close to one third of firms (34%) foresee a definite involvement – the highest figure since the question was introduced in autumn 2015. Involvement in UKCS renewables activity was not relevant to, or not a consideration for more than two thirds of licensees/operators.

Once again there was a drop in the proportion of contractors expecting to either definitely (8%) or possibly (47%) be involved in UKCS unconventional oil and gas activity in the medium term; falling from a combined total of 62% in the previous survey and from 68% a year ago down to 55%.

With respect to unconventional activities outside of the UK, 55% of contractors (down from 67% in the previous two surveys) acknowledge the possibility that their firm could be more involved during the next three to five year. 45% of firms stated that they would be unlikely to, or definitively wouldn't move into unconventional areas in international markets. Few licensees/operators expect to be involved in unconventional activities either in or outside of the UK.

Figure 7: Contractors - involvement in renewables in the next three to five years



Trends in business activity

Employment changes

In its Economic Report 2019, OGUK estimated the number of jobs supported by the oil and gas industry across the UK to be more around 260,000 in 2018. The figure includes those directly employed by oil and gas companies and major contractors as well as those from the wider supply chain and jobs supported by the on-spending of people employed in the sector. This survey draws on responses for oil and gas operators and contractors who currently employ more than 55,000 employees.

We sought information on the current UK-based workforce for each firm, asking what has happened and what they expect to happen to their UK workforce (FTEs). In the 2018 survey 21% of contractors increased their total workforce by more than 10%, now in this latest survey this has risen to 27%. During 2020 18% of contractors expect their total workforce to increase by more than 10%.

In this current survey 54% of contractors increased their employment (FTEs) levels over the past year and (compared to 40% previously) and 32% (compared to 46% in the last survey) reported no change while 12% (13% in the last survey) reported decreasing their workforce. During 2020 only 3% expect to reduce their workforce.

Figure 8: Contractors - employment trends, 2004 to expected 2020 (net balances)

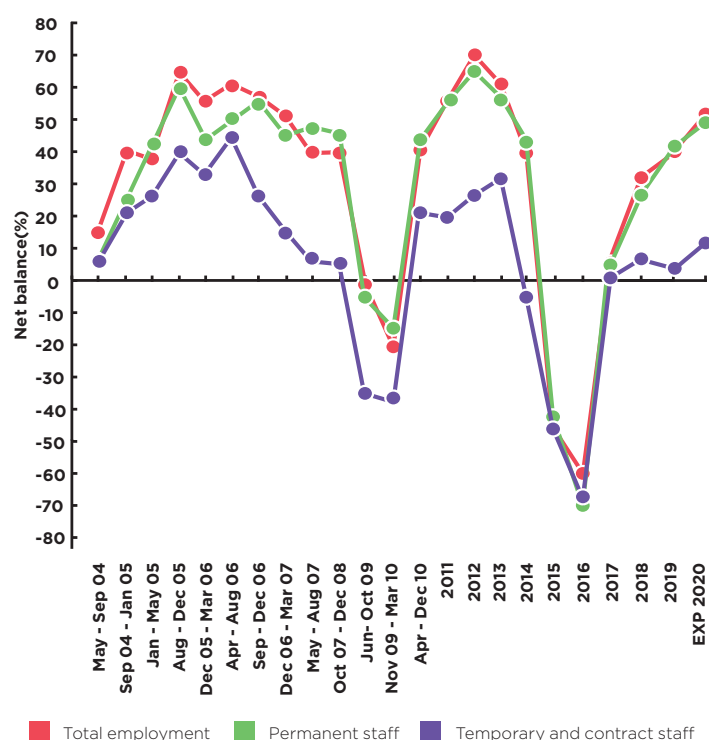
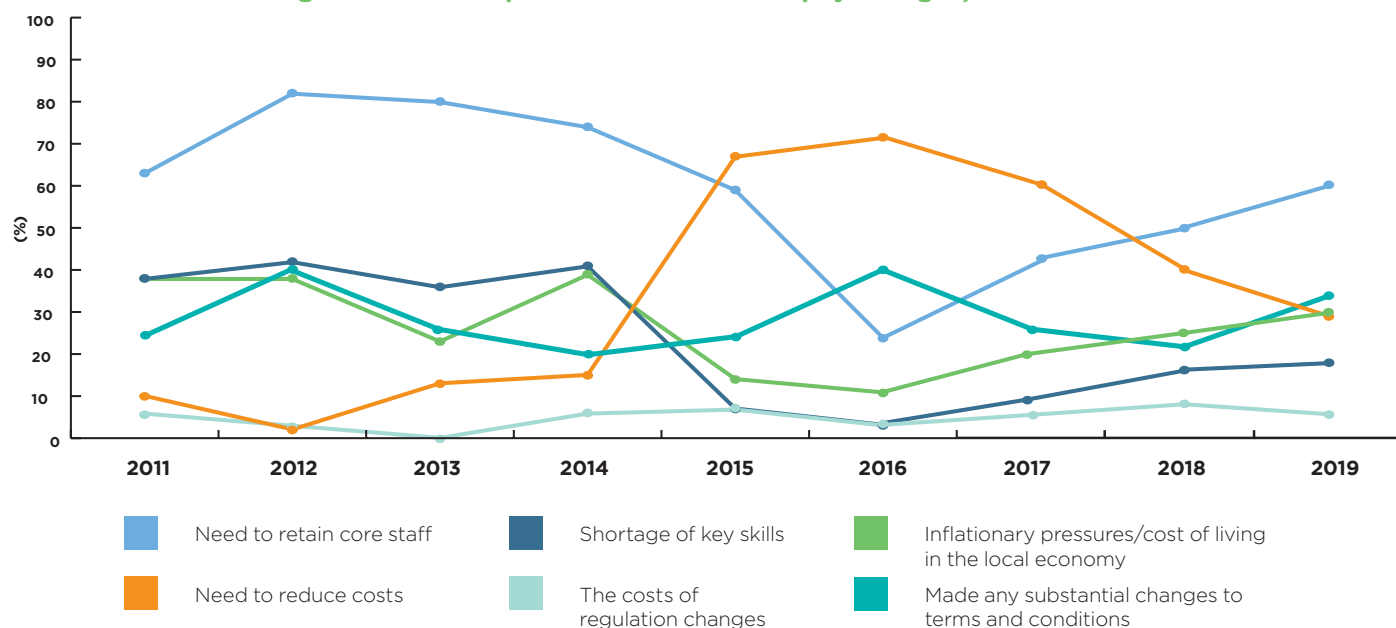


Figure 10a: Operators and contractors - average annual pay change 2004 - exp 2020



Figure 10b: All respondents - reasons for pay changes, 2011 to 2019



Remuneration and terms and conditions

The recent trends in (mean) pay increases between 2004 and 2019, shown in Figure 10a, correlate with the pattern of demand for staff over this period. It is not surprising therefore that fewer firms are reporting reducing pay. The average change in pay in the last year was +2.9% up from +0.95% in 2018 and from the -2.14% during 2017. Contractors and operators/licensee reported average (mean) changes of +3.0% and plus 1.9% respectively. Around 70% of firms made changes to pay during the last year, and Figure 10a shows the comparison between the pay changes seen over the past 15 years and expected changes over the next year.

Through 2015 to 2017 the main driver for changes to pay and benefits was the need to reduce costs but since 2018 the main driver has been to retain core staff and in this latest

survey 61% reported this as the main reasons behind changes in pay and conditions.

Just over a third of firms in the survey reported making substantial changes to terms and conditions of employment. Some firms reported increasing wages/salaries to retain staff but many more reported either reintroducing, introducing or improving bonus schemes. A number of firms have also improved holiday pay. Aside from changes to pay firms have made changes to working hours, whether introducing flexible working increasing holiday entitlement or in some cases reducing working hours. Additionally, some of the respondents have introduced/improved healthcare plans, life assurance, pensions etc.



Recruitment, retention and skills shortages

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A return to growth creates a new challenge – the war for talent. The drive to fill the talent shortage means more than half of contractors have increased employment, with average pay rising by almost 3%.

KPMG viewpoint

Recruitment, retention and skills shortages

Recruitment challenges had diminished sharply in the years following the oil price fall with firms noting that it was easier to recruit, particularly for highly skilled roles. However, as the sector recovers it is becoming increasingly difficult for firms to find the professionals they need to take advantage of growth prospects. Over the past year respondents report that recruitment problems have begun to re-emerge with organisations experiencing both escalating skills shortages and increased competition for talent.

In this latest survey we find that recruitment difficulties have once again increased slightly over the past year, 31% of

contractors compared to 25% one year ago (and to just 13% two years ago) reported difficulties in recruiting managerial and professional staff. Similarly there has been a steady increase in problems for contractors attracting suitable skilled trades staff climbing from 8% in 2016, to 18% in 2017, then to 27% in 2018 and now stands at 33%. Contractors reporting difficulties in recruiting suitable technical staff rose in 2018 to 37% and has increased again with 45% reporting recruitment difficulties. Difficulties attracting suitable clerical staff on the other hand remain low, with fewer than one in 10 contractors reporting problems.

Figure 11a: Operators/licensees - percentages reporting difficulties in recruiting staff, by occupation, 2004 to 2019

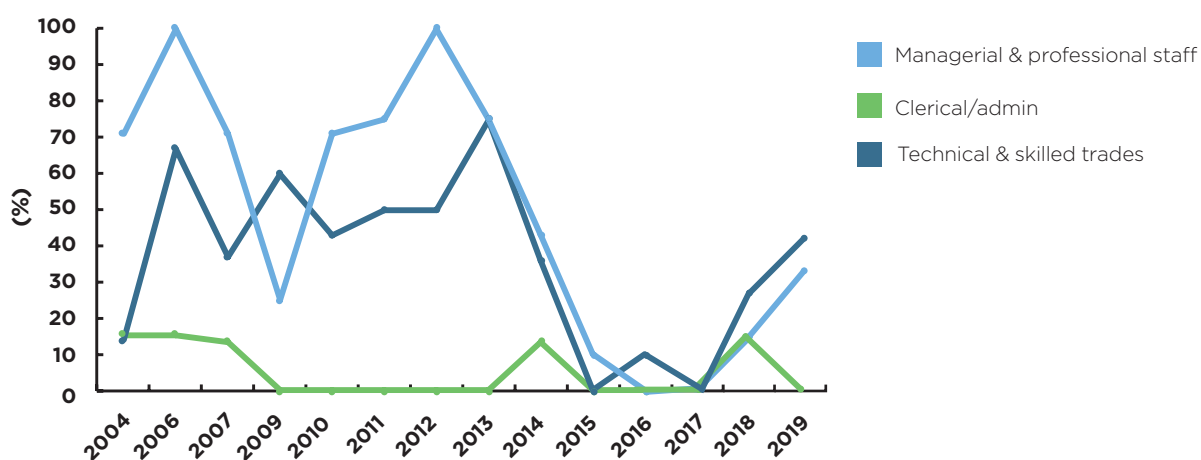
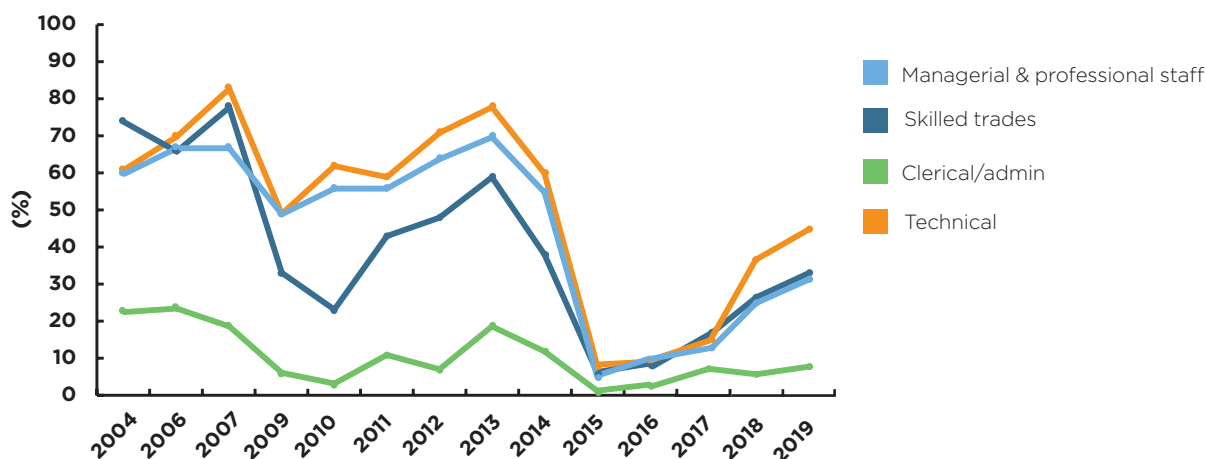


Figure 11b: Contractors - percentages reporting difficulties in recruiting staff, by occupation, 2004 to 2019



Since 2006 the autumn surveys have explored the reasons for firms losing staff. This is important for both short-term capacity and longer-term sustainability. The reasons for staff loss among contractors are given in Figure 12a and Figure 12b. Staff leaving to join other oil related firms in the area remains the most commonly cited staff retention issue – just over half of contractors (53%) specified this as a factor. Retirement and staff leaving the industry altogether also remain significant factors for 45% and 35% of contractors respectively though both are broadly unchanged from 2018.

Respondents were asked to identify what skills, if any, are still in short supply within the industry; half of responding firms identified at least one skill deemed to be in short supply.

The most common reasons given for recruitment difficulties varied by role however a lack of specialist skills and industry/general experience were the most common. Once again engineering roles proving to be the most difficult vacancies to fill – whether general or specific including electrical/instrument and mechanical. Additionally, firms were seeking engineers with further skills for example, sales and who had a deep knowledge of the industry. Many of these firms are looking for already experienced engineers.

Similarly, firms also reported a lack of suitable technical staff – again some noted general technical staff and others noted specific technical occupations like, for example electronic or field service technicians. A number of firms

Recruitment, retention and skills shortages

Figure 12a: Contractors: reasons for loss of core staff, 2006 to 2019

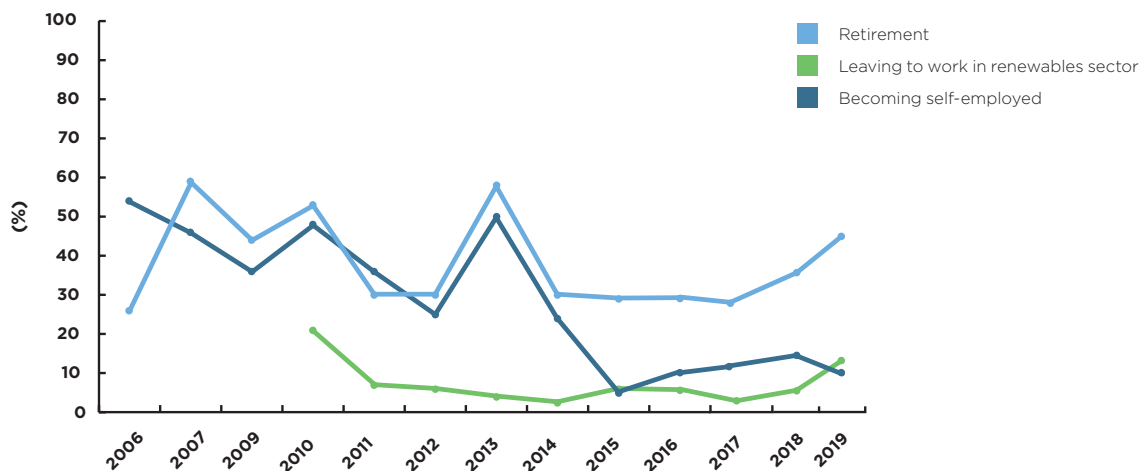
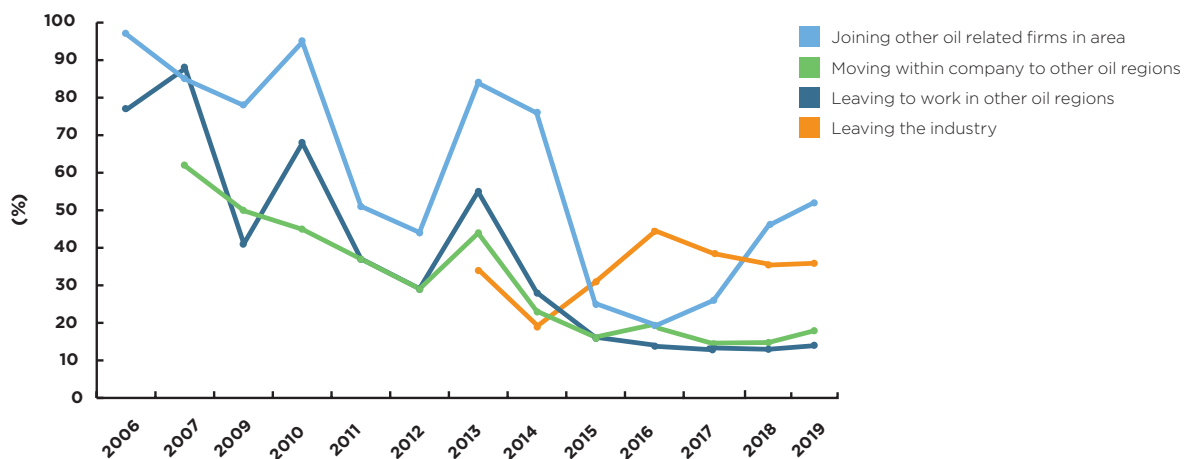


Figure 12b: Contractors: reasons for loss of core staff, 2006 to 2019



also reported difficulties attracting staff with IT experience and skills, particularly programmers and software specialists. Companies also reported problems attracting managerial and sales staff.

We asked firms to consider how they would rate both their organisation's and the industry's effort on attracting and retaining skilled staff (see Figure 13a and 13b). Broadly speaking organisations believe that, in comparison to the industry as a whole, they are much better at attracting, retaining and investing in staff. 39% of respondents perceive the industry to be poor or very poor when it comes to attracting young people into the industry compared to only 15% who would rate their organisation correspondingly.

With respect to talent retention, 76% felt that their own organisation was excellent (30%) or good (46%) at retaining skilled and experienced staff whereas only 23% felt that the industry was either excellent (5%) or good (18%). Additionally, 55% of firms felt that their organisation was good/excellent when it comes to investing in retraining and upskilling compared to 25% who believed the same of the industry as a whole.

In order to identify possible causes or reasons for recruitment problems we asked a question on what's affecting their

organisations' ability to recruit. More than half (52%) felt that the wider perceptions of the oil and gas industry were having a detrimental effect on their ability to attract workers. Furthermore 44% of firms reported that they were finding it difficult to get staff to come to the North-east to work. Also, half of firms think that the reason they are having difficulties in filling posts is because of less competitive salaries. A quarter of firms claim that because they are recruiting for non-traditional roles they were experiencing recruitment difficulties.

With the need to build a skilled and sustainable workforce for the long-term in mind we then went on to ask a question on what steps firms themselves were taking in orders to mitigate potential skill shortages. 60% are seeking in-house solutions and implementing training and development for their current employees while others (56%) are having to look externally to meet their changing skills needs and are using graduate schemes and/or apprenticeships.

Just over a third of firms (35%) said that they have increased their use of contractors and consultants and a similar proportion have gone down the road of increasing pay and benefits for both new and current employees (32%). Expanding their geographical focus for recruitment was the route taken by a third (32%) of firms.

Figure 13a: Attracting and retaining skilled staff - Organisational level

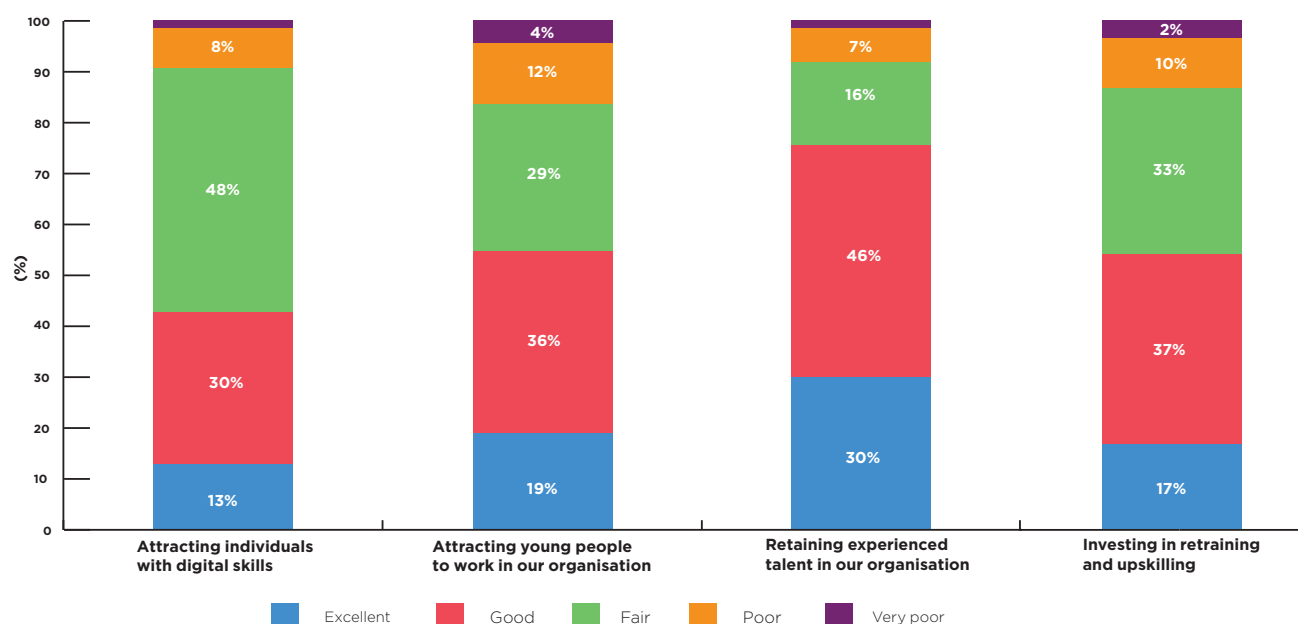
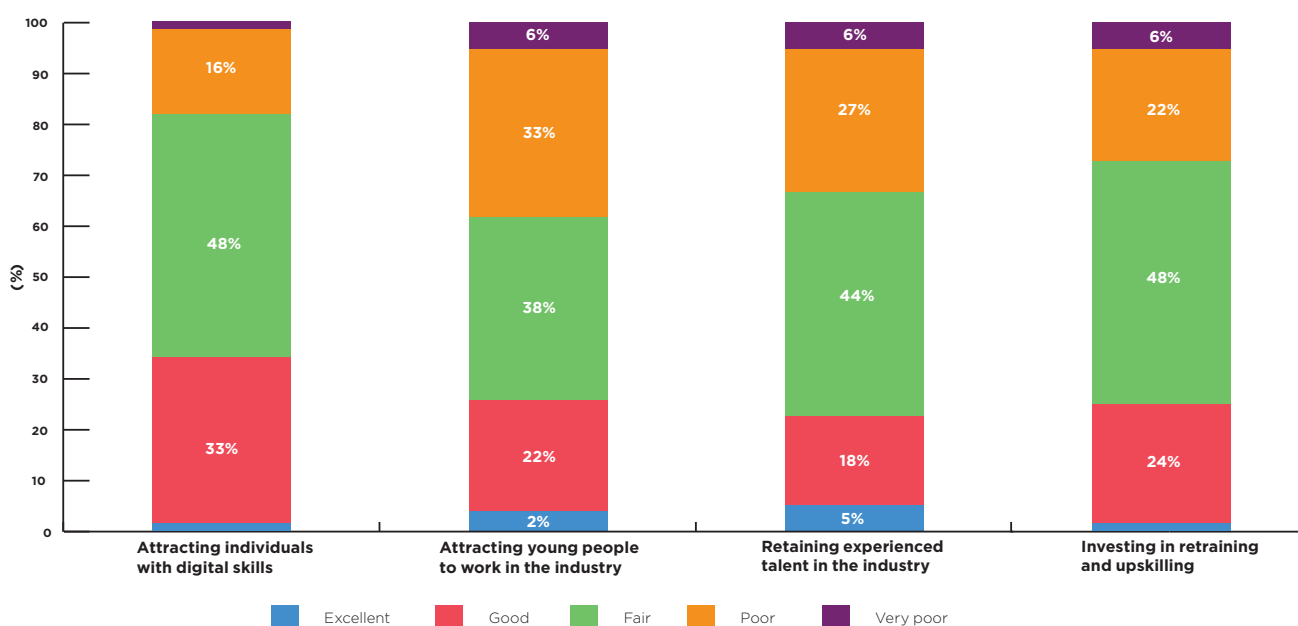


Figure 13b: Attracting and retaining skilled staff - Industry level



Future planning

The changes to IR35 from April 2020 mean that businesses will be responsible for determining the employment status for tax of individuals providing their services via a limited company. The business/client will be liable for deciding whether contractors providing their services via a limited company should be treated as employed or self-employed for tax purposes, and either the business or an agency will be responsible for accounting for PAYE/NIC on payments to the limited company where required. With this in mind we asked firms what steps, if any, their business will be taking as a result of the new IR35 legislation changes.

Almost two thirds of firms (62%) have assessed the impact

that IR35 could have on their business and only a quarter (25%) claimed to have made no assessments. 14% of firms are expecting to change their recruitment policies as a result of the IR35 changes. More than a quarter of firms (27%) declared that the changes would lead to the recruitment of fewer contractors – up from 14% in the previous survey. Almost a fifth of firms (18%) say they will recruit new employees to replace contractors and one in 10 (12%) will convert existing contractors to employees.

17% said they would attempt to negotiate additional costs with the supply chain compared to only 8% previously.

Current industry challenges

The background of the slide is a photograph of an offshore oil drilling rig at sunset. The rig is a complex structure with a tall derrick and two large cranes. The sky is a deep orange, and the rig's lights are visible. The overall tone is industrial and dramatic.

“

With more than half of firms reporting an increase in demands for non-oil and gas services, the evidence is clear. Firms are making diversification a key part of their growth strategies, and embracing a new approach to energy transition.

KPMG viewpoint

Current industry challenges

In this survey we were particularly keen to find out firms' perspectives on a number of issues around diversification. We asked firms to indicate what best described their business' strategy and approach to energy transition (see Figure 14). There has been a significant shift since the last survey as now 52% of firms report that demand for their services/products is increasing organically in non-oil and gas projects compared to only 15% previously.

In the last survey 36% of firms claimed to be actively diversifying their operations and seeking work out with the oil and gas sector but this has now eased to 25%. Furthermore, fewer firms are planning no changes to the level/proportion of non-oil and gas work, as in the last survey 34% did not plan to make changes but this has now fallen to 11%.

We then went on to ask firms if they faced any barriers and challenges to diversification into other forms of energy (see Figure 15). More firms appear to have some interest in diversification with the proportion of firms stating that it was of no interest to them falling from a third in the last survey to a quarter in this current survey.

Of those firms that have considered potential diversification 34% cited concerns around profitability and return on investment as the main barrier. A similar number of firms reported a lack of experience and skills within their organisation as a barrier (31%), although this has eased somewhat since the previous survey (43%). 17% cited the high cost of R&D, 13% cited the limited access to capital and funding and a further 12% mentioned the limitations of the current technology. A fifth of firms (19%) claimed that the

current political and regulatory environment is a barrier to diversification.

If firms indicated that they had no interest in/or that diversification was not part of their plan, they were asked to give reasons as to why this might be the case. A number of drilling companies indicated that their business was very much focussed on drilling and that they would not have sufficient expertise to be involved in other types of drilling or that they would prefer to be seen as oil and gas specialists. Many firms report that the timing is not right for diversification presently and others feel that the opportunities are not there.

Almost half of respondents (49%) indicated that their firms' strategy outlined targets or deadlines for reducing their carbon footprints or for finding low carbon solutions. Some firms have formal strategies and policies but some simply indicated an awareness and are attempting to reduce their carbon footprint generally across many aspects of their business. Many are committed to working towards targets.

Some formal strategies include achieving and maintaining ISO14001 accreditation. Many firms are also implementing policies to improve energy efficiency such as eliminating all unnecessary air travel, some are switching energy providers to suppliers who source power from renewable sources, some respondents are increasing their use of electric vehicles and others are improving the efficiency of their logistics.

Figure 14 Operators and contractors - approach to diversification

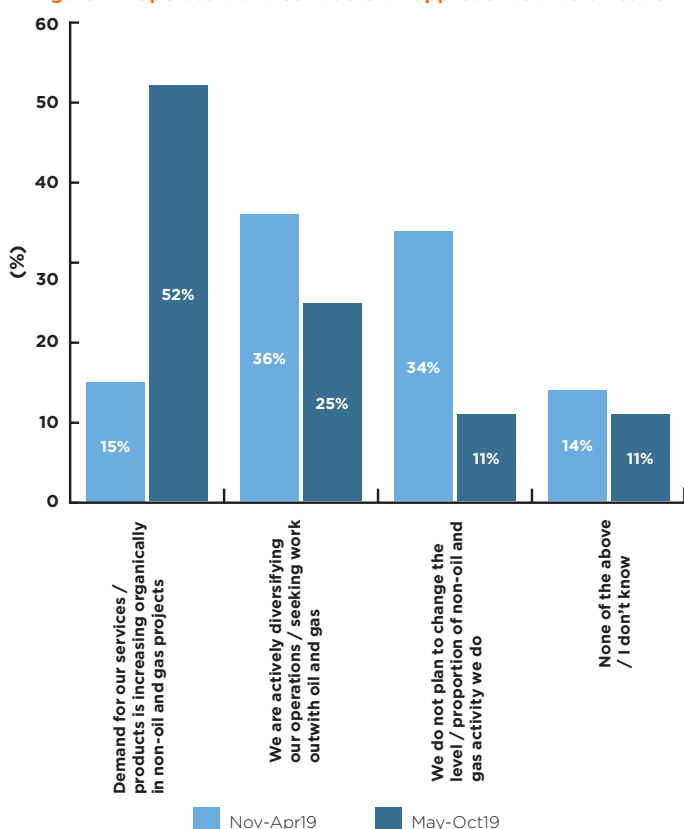
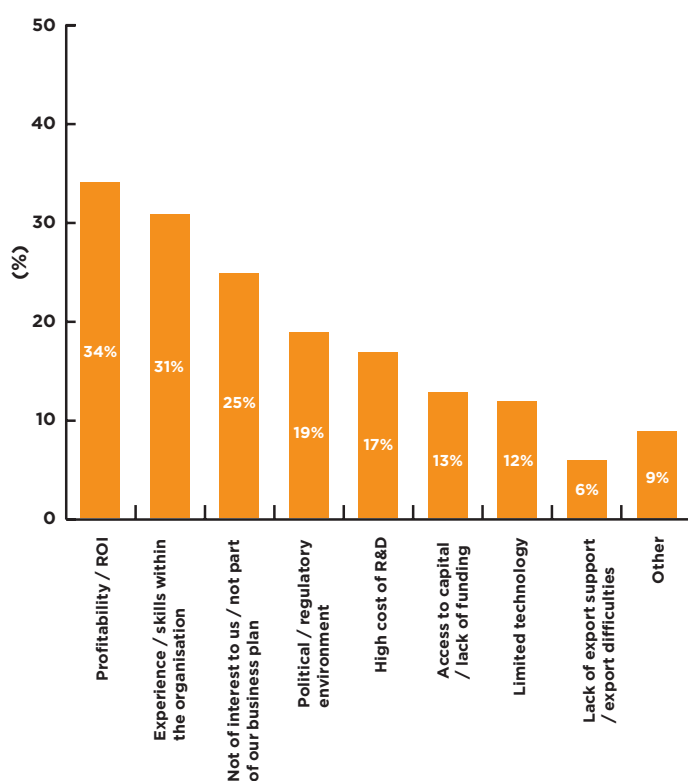


Figure 15: Barriers to diversification



Current industry challenges

Last year we introduced a question asking contractors what sectors the remaining proportion of their activities were if their business was not 100% in oil and gas activity. On average, 85% (compared to 86% in the previous survey) of contractors' business was in oil and gas activities. We then went on to ask what percentage of their business they expect to be within oil and gas activities by 2025 and here the average fell to 78%. Looking in more detail fewer than half of contractors (41%) reported that all of their business was in oil and gas with a further 36% saying that between 80% and 99% of activity was oil and gas related. By 2025 just 59%

of contractors expect at least 80% of their activity to be in oil and gas, with only 29% of those expecting 100% of their business to be in oil and gas.

Percentage of business in oil and gas activities reported that all of their business was in oil and gas with a further 32% saying that more than 80% of activity was oil and gas related, giving us a total of 80% currently reporting that more than 80% of their activity is in oil and gas. By 2025 just 60% of contractors expect more than 80% of their activity to be in oil and gas.

Percentage of business in oil and gas activities

%	2018 Autumn	2019 Spring	2019 Autumn	Expected by 2025
100%	48%	48%	41%	29%
80-99%	31%	32%	36%	30%
50-79%	12%	10%	15%	30%
0-49%	9%	9%	7%	10%

The sectors outside of oil and gas these contractors most commonly worked in were offshore wind, other general engineering, and defence. Often this work was a fairly marginal part of their activity as it generally accounted for less than 10% of their total activity.

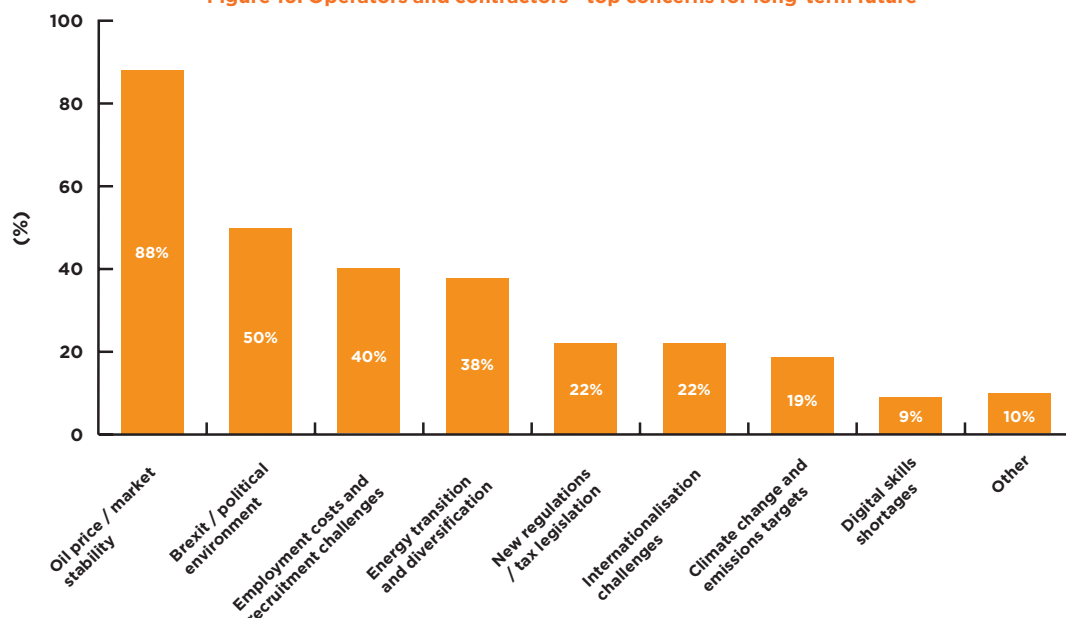
Finally, we asked firms to list their top three concerns for the long-term future of their organisation – which we specify as the next 10 years (see Figure 16). Unsurprisingly the main concern, cited by 88% firms, is the price of oil and the stability of the market.

The political environment was also perceived to be a threat for a significant proportion of firms with 50% specifying Brexit and the political environment as a problem with a further 22% identifying new regulations and/or tax legislation.

A substantial number of firms anticipate further problems around labour market issues namely employment costs and recruitment challenges (40%) and digital skills shortages (9%).

Over the coming decade 38% of firms in the survey are concerned about energy transition and diversification and 19% are also worried about the effects of targets for climate change and emissions on their organisation.

Figure 16: Operators and contractors - top concerns for long-term future



Appendix

The Oil and Gas Survey is conducted by the Aberdeen & Grampian Chamber of Commerce and the results analysed by Strathclyde University's Fraser of Allander Institute.

Methodology

The Aberdeen & Grampian Chamber of Commerce Oil and Gas Survey seeks evidence of changing trends and uses net balances as the principal survey statistic. Most questions of this nature ask the respondent to indicate whether the trend over the past four months and expected trend over the next 12 months is either 'up', 'level' or 'down'.

The net balance for such survey questions is defined as the number of 'up' responses minus the number of 'down' responses to each survey question. Hence a positive net balance indicates a rising trend and a negative net balance a declining trend.

Generally the net balance can be expected to reflect the direction of change of the variable it purports to measure. Thus, for example, a positive net balance with respect to orders indicates that orders are rising. So typically the

balance statistics are assessed by comparing them with growth rates, not levels of official data series [Treasury Bulletin Vol. 4 no. 2 Summer 1993]. A total of 90 firms employing 55,000 workers responded to the survey.

We would like to thank all survey participants. Without your time and input we could not have delivered this research. Your continued support is invaluable to us in meeting our commitment to bring you independent and impartial insights into the key issues facing your business and the wider sector.

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About the Aberdeen & Grampian Chamber of Commerce team

Have you got a business question? Well the team at the Chamber can help you answer it. Our research team can support your business in a number of ways. We offer a bespoke approach which can be tailored to your individual organisation and objectives. We are currently delivering work for a number of members and over the last three years have completed over 100 commissions. We are here to help you and would be delighted to see if we can help solve your business challenges

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